

14 November 2023

Consumer sentiment sinks back to long run lows

- **Westpac-Melbourne Institute Consumer Sentiment Index down 2.6%**
- **At 79.9, the Index has returned to deeply pessimistic levels.**
- **RBA rate rise knocked 6% off confidence during the survey week.**
- **Most consumers expect interest rates to rise further from here.**
- **Mortgage belt bracing for another difficult year ahead.**
- **Consumers set for a repeat of last year's 'penny-pinching' Christmas.**
- **Labour market confidence, housing-related sentiment largely unchanged.**

The Westpac-Melbourne Institute Index of Consumer Sentiment declined 2.6% to 79.9 in November, down from 82 in October.

The RBA's November rate hike has put renewed pressure on family finances and reignited concerns about both the rising cost of living and the prospect of further rate rises to come.

Previous months had been showing some tentative signs that sentiment might be starting to lift out of the deep pessimism that has prevailed since the middle of last year. That rally looks to have been cut short before it even really began.

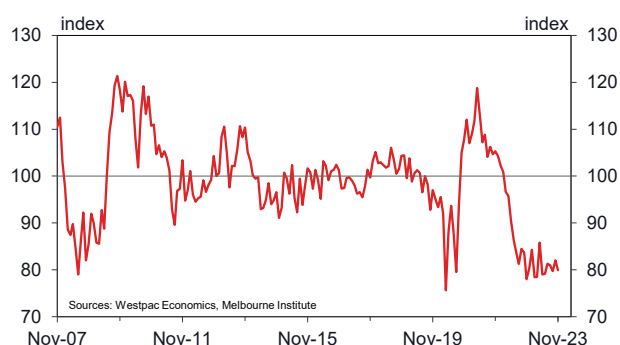
Responses over the survey week show sentiment was heading for a slight gain prior to the RBA move, responses amongst those surveyed before the decision consistent with an index read of just over 83. That compares with sharply weaker responses after the move consistent with an index read of 78.2, a 6% fall over the course of the survey week.

Consumers remain wary of the potential for more rises. Amongst those surveyed after the RBA decision, 73% expect mortgage interest rates to move even higher over the next 12 months. That compares to 63% last month and 48% in September and is comparable to the reads we were seeing back in May-July. Only 4% of consumers expect rates to be cut over the next year, down from 15% in September.

The weak November sentiment print is an ominous sign heading into the Christmas high season. Pessimism is having a major bearing on spending attitudes. Our November surveys include an additional question about Christmas spending intentions, asking consumers whether they plan to spend less, the same or more on gifts than last year.

Responses point to another 'penny pinching' Christmas this year with nearly 40% of consumers planning to spend less on gifts than last year - in line with the response we saw this time last year which was the most downbeat response since the question was added in 2009. On average in other years, about a third of consumers reported planning to spend less on Christmas.

Consumer Sentiment Index



The component sub-indexes showed sharp falls in expectations for family finances and for medium to longer term outlook for the economy - a picture consistent with the notion that rate rises have further to run and fears that the inflation situation may prove harder to bring under control.

The sub-index tracking assessments of 'finances vs a year ago' rose 2% in November but at 64.4 remains at extremely weak levels.

The biggest hit was to the sub-index tracking expectations for 'finances next 12 months', which fell 7.3% to 87. The RBA interest rate hike hit expectations amongst households with a mortgage particularly hard: the index for this sub-group dropped 15.3% in the month, unwinding most of the 20% rally that had been seen between June and October.

The 'time to buy a major household item' sub-index edged 1.4% lower in the month to a very weak read of 81.3, which is in the bottom 2% of observations since the survey began. It is, however, up 6% since September. This sub-index also showed the sharpest fall between pre and post-RBA responses, recording a 14.9% drop over the week.

Interestingly, consumers were a little less pessimistic about near-term prospects for the economy. The 'economic outlook, next 12 months' sub-index rose 2.7% to 80.5.

However, medium-term views on the economy have turned markedly more pessimistic. The 'economic outlook, next five years' sub-index dropped 6.4% to 86.5, hitting a 12-month low.

The sub-group breakdown points to a widening gap between segments that are struggling with rate increases and the rising cost of living and those that are less exposed to these issues and benefitting from higher returns on deposits and appreciating house prices. Family finances and buyer attitudes are coming under intense pressure across the mortgage belt but have firmed amongst those in older age groups, high income earners and those with investment properties.

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Labour markets remain a relative source of support for consumers. The Westpac-Melbourne Institute Unemployment Expectations Index rose 2.4% to 130.4 in November, continuing to hover around the long-run average of 129 (recall that higher index reads mean more consumers expect unemployment to rise in the year ahead). The index has been relatively steady since mid-year, at levels consistent with a softening in labour market conditions but with the unemployment rate holding around flat rather than rising materially.

The RBA's interest rate move also put a small dent in housing-related sentiment, albeit with assessments of 'time to buy' remaining deeply pessimistic and price expectations very positive.

The 'time to buy a dwelling' index declined 3.7% in October to 73.2, an extremely weak read in the bottom 2% of observations historically. Buyer sentiment is weakest in NSW, Queensland and South Australia – all of which have index reads below 70 – but notably firmer in Western Australia which recorded an index read of 90.8.

The Westpac Melbourne Institute House Price Expectations Index declined 1.2% to 158.4. A clear majority of consumers – just under 70% – still expect prices to rise further over the next 12 months. Price expectations are most upbeat in Victoria and South Australia with consumers in NSW, Queensland and Western Australia a touch less bullish.

The Reserve Bank Board next meets on December 5. The November Consumer Sentiment survey highlights the weak and uneven conditions across Australia's consumer sector. How this plays out for wider domestic demand in the context of strong population growth is something the Board will need to consider as it acts to ensure inflation returns to target."

Matthew Hassan, Senior Economist, Westpac Group

Consumer Sentiment – November 2023

Item	avg*	Nov 2021	Nov 2022	Oct 2023	Nov 2023	%mth	%yr
Consumer Sentiment Index	100.8	105.3	78.0	82.0	79.9	-2.6	2.5
Family finances vs a year ago	88.6	88.1	66.9	63.1	64.4	2.0	-3.7
Family finances next 12mths	106.9	108.9	81.7	93.9	87.0	-7.3	6.5
Economic conditions next 12mths	90.7	106.6	74.2	78.3	80.5	2.7	8.5
Economic conditions next 5yrs	92.0	111.0	85.8	92.4	86.5	-6.4	0.8
Time to buy a major household item	124.9	111.9	81.4	82.4	81.3	-1.4	-0.1
Time to buy a dwelling	121.2	91.1	77.1	76.0	73.2	-3.7	-5.1
Unemployment Expectations Index	129.0	95.3	117.3	127.3	130.4	2.4	11.1
House Price Expectations Index	126.5	152.7	91.1	160.4	158.4	-1.2	73.8
Interest Rate Expectations Index	154.5	n.a.	186.0	164.6	174.6	6.1	-6.2

Source: Westpac-Melbourne Institute.

*avg over full history of the survey, all indexes except 'time to buy a dwelling', 'unemployment expectations' and 'house price expectations' are seasonally adjusted

The survey is conducted by OZINFO & DYNATA. Respondents are selected at random. This latest survey is based on 1200 adults aged 18 years and over, across Australia. It was conducted in the week from 6 November to 10 November 2023. The data have been weighted to reflect Australia's population distribution. Copyright at all times remains with the Melbourne Institute of Applied Economic and Social Research.

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